

Message Text

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PAGE 01 LUSAKA 00370 061233Z

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ACTION EB-07

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FM AMEMBASSY LUSAKA

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INFO AMEMBASSY KINSHASA

AMCONSUL LUBUMBASHI

AMEMBASSY LIMA

AMEMBASSY PARIS

AMEMBASSY SANTIAGO

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AMEMBASSY TOKYO

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EO 11652: N/A

TAGS: EMIN, CG

SUBJECT: CIPEC MEETING IN LUBUMBASHI

REF: STATE 045528

1. MANAGING DIRECTOR OF ZAMBIA METAL MARKETING CORPORATION (MEMACO), FRANCIS KAUNDA, WHO ATTENDED LUBUMBASHI CIPEC MEETING, TOLD US YESTERDAY, MARCH 5, THAT PRINCIPAL PURPOSES WERE: A) FURTHER CONSIDERATION OF THE PROPOSAL THAT MEMBER COUNTRIES RAISE THEIR CUTBACK IN COPPER EXPORTS FROM 10 TO 15 PERCENT; B) DISCUSSION OF A PROPOSED 10 PERCENT CUT IN PRODUCTION; AND C) SELECTION OF AN AUDITOR TO MONITOR THE PRODUCTION CUT. ACCORDING TO KAUNDA, THERE WAS AGREEMENT IN PRINCIPLE ON ALL THESE POINTS, WHICH ARE NOW BEING CONSIDERED BY THE FOUR GOVERNMENTS CONCERNED AND WHICH WILL BE TAKEN UP DURING NEXT MONTHS' PARIS MINISTERIAL MEETING AT WHICH NEW ZAMBIAN

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PAGE 02 LUSAKA 00370 061233Z

MINISTER OF MINES AND INDUSTRY AXON SOKO WILL

BE IN THE CHAIR.

2. THE FOUR CIPEC COUNTRIES THEN JOINED RIO TINTO ZINC (RTZ) IN A MEETING OF THE COPPER PRODUCERS GROUP (CPG). RTZ PARTICIPATED AS REPRESENTATIVE OF THE "PACIFIC GROUP" WHICH INCLUDED SOME 60 PRODUCER COMPANIES OF BOUGAINVILLE, PAPUA-NEW GUINEA, AND PHILIPPINES AS WELL AS SEVERAL CANADIAN CONCERNS. WE GATHER FROM WHAT KAUNDA SAID, RTZ ENDORSED THE EXPORT AND PRODUCTION CUTS PROPOSED BY THE CIPEC MEMBERS. IN ADDITION, IT INTRODUCED FOR CONSIDERATION AN ELABORATE PLAN FOR FREEZING THE JAPANESE STOCKPILE OF COPPER. THE MECHANICS OF THE PLAN ARE NOT ENTIRELY CLEAR TO US (NOR, APPARENTLY, TO KAUNDA) BUT, ACCORDING TO KAUNDA, IT WOULD INVOLVE KEEPING OFF THE MARKET 500,000 TONS OF JAPANESE COPPER WITH FINANCING AMOUNTING ROUGHLY TO 700 MILLION DOLLARS (POSSIBLY EURODOLLARS, KAUNDA THOUGHT) TO BE RAISED THROUGH NUMEROUS BANKING INSTITUTIONS. THE COPPER WOULD BE FROZEN FOR 18 MONTHS AND THEN, DEPENDING UPON ECONOMIC CIRCUMSTANCES, RELEASED OVER A THREE YEAR PERIOD, THE JAPANESE THEMSELVES AGREEING TO BE AMONG THE PURCHASERS. THEORETICALLY, THE PLAN WOULD BE SELF-FINANCING; THERE WOULD BE AN 18 MONTH GRACE PERIOD ON THE PAYMENT OF INTEREST AND PRINCIPAL AND THE LOANS EXTENDED WOULD THEN BE REPAID OVER THREE YEARS FROM THE PROCEEDS OF SALES FROM THE STOCKPILE. RTZ REPORTED THE PACIFIC GROUP AND JAPAN ARE PREPARED TO GO ALONG WITH THIS PLAN. KAUNDA WAS NOT ENTHUSIASTIC ABOUT THIS PROPOSAL BECAUSE HE THOUGHT IT ESSENTIALLY A SCHEME TO BAIL JAPAN OUT OF A PROBLEM CREATED BY ITSELF, IT WOULD BE OF PARTICULAR BENEFIT TO HIGH-COST PRODUCERS OF CONCENTRATES LIKE RTZ, AND, IN ANY EVENT, IT WOULD BE ONLY A TEMPORARY STOPGAP SOLUTION TO THE COPPER PRICE PROBLEM.

3. RE THE JAPANESE, KAUNDA SAID IT TIME THEY FACED THE FACTS AND SOLVE THEIR PROBLEM THEMSELVES. LIMITED OFFICIAL USE

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PAGE 03 LUSAKA 00370 061233Z

THEIR DESIRE TO UTILIZE THEIR OWN SMELTING CAPACITY UNDERSTANDABLE BUT THE DILEMMA WAS CREATED BY THEIR OWN RAW MATERIAL PURCHASE POLICIES. WHEREVER POSSIBLE, PRODUCERS NOW TURNING OUT ONLY CONCENTRATES WILL GO INTO SMELTING AS WELL. FOR EXAMPLE, ACCORDING TO KAUNDA, GECOMINES REP TOLD HIM IN LUMBUMBASHI THAT, CONTRARY TO AGREEMENT WITH JAPAN IN CONNECTION WITH LATTER'S COPPER INVESTMENT IN

SHABA PROVINCE, NEW SMELTING CAPACITY WILL BE
INSTALLED THERE. IN ADDITION A PAPUA-NEW GUINEA
SMELTER IS TO BE EXPECTED. OTHERS WILL FOLLOW
SUITE EVENTUALLY. INCREASINGLY, JAPAN WILL HAVE TO
PURCHASE ELECTROLYTIC COPPER RATHER THAN CONCENTRATES.

4. THE LUBUMBASHI MEETING ALSO DISCUSSED BUFFER
STOCK PROPOSALS BEING CONSIDERED BY CIPEC. THE
ESSENTIAL ELEMENT, KAUNDA SAID, WOULD BE A COMMODITY
AGREEMENT AMONG CONSUMERS AND PRODUCERS ON THE MODEL OF
THE TIN AGREEMENT WITH IMF FINANCING. HE HOPES THAT
PERHAPS AS EARLY AS JUNE THERE COULD BE A CONSUMER/
PRODUCER MEETING TO CONSIDER SUCH A PROPOSITION. HE
SUGGESTED THAT THE PROSPECTIVE
FLOOR-CEILING PRICE SPREAD MIGHT BE ROUGHLY 600 TO
900 POUNDS STERLING A TON. KAUNDA SAID, INCIDENTALLY,
CONSUMERS GENERALLY AGREE 800 POUNDS STERLING WOULD
BE A REASONABLE AND FAIR PRICE FOR COPPER.

5. KAUNDA RATHER OPTIMISTIC CIPEC IS MOVING TOWARD
A POSITION IN WHICH IT WILL EVENTUALLY BE ABLE TO HAVE
A SIGNIFICANT INFLUENCE ON COPPER PRICES. HE IS
ENCOURAGED IN THIS BY THE FACT THAT SO MANY
OF THE WORLD'S SMALLER AND HIGH-COST PRODUCERS HAVE
MADE IT CLEAR THEY LOOK TO CIPEC FOR LEADERSHIP
IN RESOLVING THE PRICE PROBLEM. HE RECOGNIZED,
HOWEVER, THERE IS SUBSTANTIAL DIFFERENCE BETWEEN
THE POTENTIAL POWER OF CIPEC AND THAT EXERCISED
BY OPEC.

6. IN COURSE OF CONVERSATION KAUNDA NOTED THAT AMONG
APPLICANTS FOR CIPEC ASSOCIATE MEMBERSHIP UNDER
ORGANIZATION'S REVISED CONSTITUTION ARE RTZ, YUGOSLAVIA
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PAGE 04 LUSAKA 00370 061233Z

(A NET COPPER IMPORTER), AND ALGERIA (A POTENTIAL
PRODUCER).

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